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PAPER CURRENCY IN COLONIAL SOUTH CAROLINA.¹

South Carolina was the first among the colonies to introduce a modification of the paper money system. Bills of credit were issued, not merely as a fiscal expedient, but as a contrivance for the advancement of trade. At the close of the seventeenth century the currency problem in the province was practically the same as in all the other colonies. Gold and silver were exceedingly scarce and prices correspondingly low. The natural tendency under these conditions would be an influx of specie. The needs of the new colony, however, and the restrictive commercial policy of England kept year after year the balance of trade in favor of the mother country, to settle which the constant exportation of specie was necessary. The colony suffered from a chronic state of monetary stringency. Very little coin was to be found at all; and that little came through the illicit trade carried on with Mexico and the West Indies. Moreover the imported coins were of many different kinds, and circulated at prices varying from par to fifty per cent. of their face value. Several attempts were made, both in England and in South Carolina, to regulate their values in terms of sterling money. But the acts of parliament and the proclamations of the sovereign were generally disregarded, while the acts of the assembly were never in effect long, and were repealed for the reason that more harm to commerce was believed to be done by the attempts to regu-

¹ The original sources consulted are Trott's *Laws of South Carolina*; Grimké's *Laws of South Carolina*; Brevard's *Digest of the Laws of South Carolina*; *Statutes at Large of South Carolina*; and Carroll's *Historical Collections of South Carolina*. Of general works of reference, the histories of Bancroft and Hildreth are the most important; while of works bearing more especially on South Carolina the chief are the histories by Simms, Ramsay, Drayton, Archdale, and Hewat; lastly, reference must be made to Whitney's monograph on the *Government of the Colony of South Carolina*.

late the value of the various coins than would result if the merchants were left to make their own agreements.

With the opening of the eighteenth century began the period of paper money. The abortive expedition against St. Augustine — the invasion of the province by Feboure — the expedition against the Tuscarora Indians — the Yamassee war and the suppression of the pirates, all took place between 1701 and 1719, and drew after them debt, taxes, paper-issue, and depreciation.

By the act of Assembly, May 8, 1703, South Carolina, "following the examples of many great and rich countries who have maintained themselves in their exigencies with credit funds, which have fully answered the ends of money, and given the people besides a quick circulation of their trade and cash," authorized the issue of six thousand pounds in bills of credit to pay the debts incurred by the expedition against St. Augustine. These notes were issued in denominations ranging from fifty shillings to twenty pounds; they bore interest at twelve per cent.; they were made receivable for all public dues and a legal tender in all private transactions. By the same act a tax was laid for their retirement. But the current necessities of the colony absorbed the total income from it. Succeeding acts of Assembly indemnify the treasurer for applying the sinking fund to other purposes, continue the bills current, and authorize new issues. Within seven years 25,000 pounds were emitted, of which 16,000 pounds remained current on March 1, 1710, the remainder having been redeemed or lost and destroyed. After the first issue the interest-bearing feature was discarded since it kept the notes out of circulation and caused them to be hoarded.

From 1703 to 1712 the credit of paper money was undiminished, — exchange being repeatedly quoted at fifty per cent. advance. Why this discount took effect from the beginning does not appear from any of the sources consulted. The important fact is that it was unvarying. The notes circulated freely and ample funds were

provided for their redemption. But a new project, theoretically very plausible, contrary to the expectations of its friends, brought on depreciation. Interest was high, and the value of lands rose yearly by virtue of the introduction and successful culture of rice; these conditions suggested the idea of a land bank as an easy and practicable mode of obtaining money and of supporting the credit of paper. The bank act of 1712 authorized the enormous issue of 52,000 pounds; of which 16,000 were to be exchanged for the old bills, 4,000 to be applied to the payment of current expenses of the government, and 32,000 pounds to be loaned out at interest to such of the inhabitants as could give the requisite security and agreed to pay ten per cent. interest annually in addition to the twelfth part of the principal. On their emission, the rate of exchange and the price of all produce quickly increased. Ten years later the rate of exchange was fixed by law at four to one. A further depreciation resulted from the large sums issued in bills of credit to defray the heavy expenses of the war with the Yemassee Indians in 1716. The people lost confidence in the colonial bills of credit, the multiplication and extension of which was so easy and tempting.

In 1716 it appears that there were 58,000 pounds of bills of credit in circulation, over and above the amount of the bank bills outstanding. Governor Johnson, the representative of the proprietors, had instructions to reduce the paper currency. He recommended to the assembly to consider ways and means to this end. The Indian war had occasioned a scarcity of provisions, large issues of paper had lowered its value, both causes contributed, therefore to raise the price of country commodities. The merchants and money lenders were losers by these bills of credit; and the planters, who were generally in debt, gained by them. Hence stormy debates arose in the assembly between the planting and mercantile interests. The governor had sufficient influence to prevail upon the assembly to pass a law for sinking and paying off their bills of credit in three years, by a tax on

land and negroes. Their act for that purpose, gave great satisfaction both to the proprietors and the people concerned in trade.

This compliance of the assembly gave the governor some hope of reconciling them gradually to the supreme jurisdiction of the proprietors ; but his hope was of short duration. The planters finding the tax act burdensome, began to complain and to contrive ways and means of eluding it by stamping more bills of credit. The proprietors having information of this, and also of a design formed by the assembly to set a price on all country commodities and make them at such a price a good tender in law for payment of all debts, enjoined the governor not to give his assent to any bill passed by the assembly, nor to render it of any force in the colony, before a copy thereof had been laid before them. At the same time several of the measures which had been so popular were disallowed by the proprietors, the assembly was dissolved, and another elected. When this new assembly met it declined to act as an assembly, and assumed the character of a revolutionary "convention." A conspiracy was formed, quietly and quickly, the revolution was successful, proprietary control was thrown off, the colony was purchased by the crown and passed under its immediate care and protection.

In 1722 estimates show that only 8,000 pounds of the 52,000 pounds issued by the bank act of 1712 remained unredeemed. But there were in addition 72,000 pounds of various later issues outstanding, besides 40,000 pounds just authorized to be issued by consent of the royal governor who had but recently replaced the proprietary representative. The rate of exchange, after passing through all the intermediate grades of depreciation, was finally fixed at seven hundred pounds of currency to one hundred pounds sterling.

The governor's assent to the issuance of forty thousand pounds early in 1722 had the intended effect of making the people more pleased with their change of government, but it paved the way for demanding still further issues. In the

latter part of 1722 a bill was introduced into the assembly for adding 120,000 pounds to the paper money of the colony. But when this bill was introduced, twenty-eight of the principal merchants of Charleston remonstrated against the emission, and in a petition on the subject, which they presented to Governor Nicholson, alleged as the chief cause of the present excessive depreciation "that every legislative engagement for recalling the various emissions of bills had been broken through by every assembly." Provoked at this plain statement of unpalatable truth, the assembly pronounced the merchants' petition "a false and scandalous libel," and committed the petitioners to prison for breach of privilege. Neither the governor nor the council dared to interfere, and the prisoners were only discharged upon confessing their fault, and paying a large sum in the name of fees. The bill for this new emission of paper, though passed by the assembly, was disallowed in England, and instructions were sent to Governor Nicholson to consent to no new law for "erecting" a further paper currency, nor to any act for diverting the sinking funds already established. The assembly used every art to induce the governor to disregard these orders. But, anxious as he was to please, the risk of removal was more than he dared encounter. As no more paper money could be had, a law was passed making rice, at certain fixed rates, a legal tender in payment of debts.

Meanwhile, by the action of the laws for the retirement of the bills of credit and for raising taxes for that purpose, considerable sums were being annually retired. Apprehending a scarcity of money from this cause, the assembly in December of 1725 tacked a clause to the annual revenue bill repealing all laws for retiring the bills. The council proposed to strike out this provision; but the assembly denied their right to amend money bills, and the only option left the council was to submit to a failure of supplies, or to break the royal instructions. This policy was followed up the next year, 1726, by a bill for the issue of additional paper, which, however, the council refused to pass. In con-

sequence of this refusal, an association was entered into by the planters not to pay taxes, under pretense of inability to do so, unless aided by the issue of paper currency. Disputes between the two houses, the lower unanimously in favor of, and the upper as unanimously opposing bills of credit, were carried to such a height that there was not one legislative act passed between the years 1727 and 1731. When the council refused to pass laws favorable to paper money, the provincial House of Commons declined their concurrence in any laws whatever. Each branch endeavored to throw on the other the odium of involving the country in the evils which resulted from a suspension of all legislation. The House of Commons finally carried its point; for an act to emit 210,000 pounds in bills of credit to be loaned out at eight per cent. was passed in 1736.

The substance of the arguments in support of the bill and in opposition to it may be gathered respectively from the preamble of the act as passed, and from the written protest against it filed by three members of the council. The preamble reads as follows :

“Forasmuch as it is absolutely necessary that in all countries and places wherein is carried on any considerable trade and commerce, there should be a sufficient currency or medium of trade therein, for the better negotiating thereof; and whereas, through the great want of other currency, it has been found necessary for thirty years past to stamp and emit paper bills of credit in this province, for the better support of the government, as well as for a medium of trade therein and for carrying on the commerce thereof, and, which by long experience have been found to answer the ends aforesaid; and whereas, the trade of this province hath for these twelve years past been very greatly increasing, insomuch that the sum in paper bills of credit, which so many years ago was sufficient to answer all the exigencies and demands in trade, is now altogether insufficient for that purpose, by reason whereof, and the extreme scarcity of money, the trade of this province becomes greatly obstructed, the affairs of the government very much hindered, and the payment of debts retarded and in great measure rendered impracticable; for rem-

edy whereof, and for the better support of government, and that a medium in commerce may be by law established in this province and made current, by being put on a sure, equitable and lasting foundation, "it is prayed that" 210,000 pounds be issued, equal to 30,000 pounds sterling, . . . which shall be deemed lawful and current money.

To this three of the counsellors protested as follows :

First, . . . for that there is no present necessity for enlarging the said paper credit of the colony because it is notoriously evident that the course of exchange between sterling money and the present paper credit, within this two years last past hath advanced in proportion from seven to ten shillings Carolina money on every twenty shillings sterling, to the great prejudice not only of all persons concerned in trade in this province, but to all merchants in Great Britain, trading here, who have very large debts outstanding in this province.

Secondly, because the nominal value of the issue so many fold exceeds its sterling value.

Thirdly, because the bills will have no steady ascertainable value nor will the possessors of them have any guarantee of receiving just recompense and satisfaction for them.

Fourthly, because nevertheless they are made a legal tender in payment of all debts.

Fifthly, for that as it has been found by constant experience that the continued increase of this sort of paper currency has from time to time depreciated the credit of the paper currency, wrought up the course of exchange to what it now is, seven hundred and forty pounds and upwards, of the now current bills for one hundred pounds sterling ; so by enlarging the present currency the same will diminish its value, increase the price of the commodities of the country, raise the course of exchange, and be highly detrimental to the trading interests.

Lastly, because their currency was made perpetual, contrary 'to the royal instructions, reciting the great inconveniences that have heretofore happened in South Carolina from the issuing of large sums of paper money without sufficient funds for the gradual repaying and cancelling of the same.'"

Of the 210,000 pounds authorized to be issued by this law, 100,000 pounds were to replace old and worn bills, and

the remainder, 110,000 pounds, was to be loaned on mortgage security at eight per cent. interest payable in gold and silver at a ratio of approximately one pound in coin to seven in currency. The commissioners were further required to invest five-eighths of the interest money in mortgages until the whole mortgage investment of the colony should amount to 210,000 pounds. To encourage the importation of gold and silver a discount of ten per cent. on all duties was paid in specie.

Ten years later, in 1746, an act was passed without serious opposition containing for the most part the same provisions. It authorized the issue of 100,000 pounds to replace old and worn bills, and 110,000 pounds to be loaned on mortgage security as before. There were the same provisions for the payment of interest in specie and for the investment of five-eighths of the interest annually up to the total of 100,000 pounds. On the other hand the discount on the payment of customs and duties in specie was omitted and provision was made for the retirement of the mortgage bonds in ten annual installments, beginning when the total investment should have reached the maximum figure, 210,000 pounds. Apparently the provisions of this act were carried out with some degree of faithfulness, for there are indications of a rising public credit.

In 1748 an issue of 106,500 pounds was authorized for replacing worn bills of former issues. In 1769, for the last time, a similar amount was issued for the same purpose. The preamble recites that "the present lawful paper bills of credit in this province, amounting to the sum of one hundred and six thousand five hundred pounds, now outstanding, are become old, and, by passing through many hands, ooliterated, torn and defaced, so that their denominations are very difficult to be distinguished." A limit of two years was set for the retirement of the old issue. It is to be inferred from this act that the bills of credit current in the colony did not then exceed the amount named.

Meanwhile trouble with the Cherokee Indians in 1760

caused an expenditure of over 300,000 pounds. To raise this sum resort was had to public orders, a form of anticipated revenue or forced loan. Public orders were issued to the amount of 316,699 pounds, entitling the bearer to so many pounds of credit in the current money of the province and receivable in payment of all public dues for a period of five years but no longer. Their retirement in five annual installments was ordered and tax laws were passed accordingly. This is the largest issue of credit at one time in the history of the colony. The orders were intended to circulate; the provisions for their retirement were faithfully executed from the beginning and they suffered no depreciation. In 1770 an issue of public orders to the amount of 70,000 pounds was made under similar regulations and with similar results.

As the disputes between the American colonies and the mother country approached their climax in 1776, South Carolina entered with enthusiasm and patriotic devotion upon the defense of American liberties, and assumed large financial responsibilities. Though the treasury was empty, the colony was rich in resources; before the spring of 1777, 300,000 Spanish milled dollars had been appropriated and paper bills of credit issued in anticipation of it all. The strict observance by the colony in recent years of good faith in performing all its contracts had placed public credit on a sound basis and prepared the way for the currency of everything stamped with public authority. The scarcity of specie made the issue of paper money very acceptable since the transfer of property was greatly facilitated thereby.

The paper currency retained its value undiminished for one year and nine months, from June 1775, to April 1777. At this latter date a depreciation commenced destructive to credit, ruinous to the moneyed interests, and greatly detrimental to the success of military operations. Continental bills of credit were current in the State as well as its own bills, and contributed much to the depreciation of the local emissions. Up to 1780 these amounted to a total of \$8,000,-

ooo. In April 1777, 108 pounds of paper money of the recent issues were required to make 100 pounds of good money; in May 1780, 5,248 pounds in bills of credit were required in exchange for 100 pounds sterling. After this the bills ceased to circulate.

The possessors of the paper money who, either from accident or sagacity, conjectured rightly in the beginning that floods of paper money would be issued, and would subsequently be depreciated, concluded that it would be better to purchase any kind of property than to lay up their money. But on the other hand, the progressive superabundance of currency produced a daily rise in the price of commodities and the deceitful sound of large sums tempted many possessors of real property to sell. The purchasers, if indulged with the usual credit, or if they took the advantage which the delays of the courts allowed, could pay for the whole by reselling an inconsiderable part. The sanguine, flattering themselves with delusive hopes of the speedy termination of the war, were often induced to sell lest a sudden peace should depreciate the money, in which case it was supposed they would lose the present opportunity of selling to great advantage. From the same principles some hoarded up the bills of credit in preference to purchasing solid property at a supposed extravagant price. They mistook the diminished value of the money for an increasing price of commodities, and therefore concluded that by buying little, selling much, and retaining their paper currency they were laying foundations of permanent future wealth. That the money should finally sink or that it should be redeemed by a scale of depreciation were events neither foreseen nor expected by the people at large. Congress and the provincial legislatures, for the first five years of the war, did not entertain the most distant idea of such a breach of public faith.

Many attempts were made to preserve the credit of the currency. State and Continental loan offices were opened and subscriptions solicited, that the necessity of further

emissions might be diminished. But the amounts thus raised fell so far short of what was needed that further emissions could not be restrained. When the small quantities of specie which still remained began to be exchanged for paper bills at an advance, an act of assembly was passed prohibiting any person from demanding or receiving for any article a larger sum in paper than in specie. It is needless to say that it was utterly ineffectual. But all debts could be paid in paper, though for new purchases it was of much less value.

Much of the evil occasioned by the legal tender of paper bills might have been prevented if the laws respecting it had confined its operations to future contracts. A great deal might have been done at an early period by taxation to support the credit of the money. "It is remarkable, that though the American Revolution took place only forty years after these events (referring to the issuance of 210,000 pounds in 1736), they were so little known as to be never referred to in the debates relative to paper money. In the interval a new race had sprung up who had no personal knowledge of them. Tradition was obscure, history was silent. Newspapers gave no information. Old official records were seldom examined or referred to. From these causes the Carolinians of 1776 had little knowledge of what their forefathers had done in 1736." The engrossing interest in the events of the day tended to divert attention from the past. But had all precautions been taken, depreciation would still have resulted, only in a more moderate degree, for there were no resources adequate to the raising of sufficient supplies without large emissions of paper money.

Acknowledgment on the part of the State of debt and of the sum due was given to the creditor in the form of an indent. Interest on these evidences of debt was paid by another paper called a special indent. These were issued annually for five years, and were made receivable for taxes which were annually imposed for their redemption.

Bills of credit declared a legal tender in all payments, served the purpose of a forced loan, without encountering the same obstacles, or exciting the same clamor, as the direct collection of taxes. The system was this: the State owes money, and is without means to pay it; an act is passed issuing bills of credit to its debtors, promising to pay by a certain date; these bills of credit are then made a legal tender, and thus become a form of currency; by the same act taxes are ordered to be levied in amounts sufficient to pay off the State debts; the bills of credit are made receivable for taxes at par with gold and silver; it is far more convenient to pay taxes in these bills of credit for they have usually depreciated somewhat, and are so sought after for the purpose of paying them into the State Treasury; it is cheaper to pay taxes with them; so the State gets in very little money by the raising of taxes, but the bills of credit are gotten back, the debts are cancelled, and all that has been desired has been accomplished. By this method the State was enabled to use the money to be raised by taxes several months before its collection. Even the depreciation of the bills tended to make them popular; for debtors, always a large class, especially in a new country, were thus enabled to discharge their debts at a discount, while a rise of prices in proportion to the depreciation gave a fallacious appearance of general prosperity. The scarcity of money, in other words, the appreciation of the currency, caused by the rapid diminution of the circulating paper paid off by the taxes imposed to redeem it was represented as a public calamity; for which a remedy was sought in the paper money loan system. "A system neither more or less than a contrivance for raising out of the public at large a fund to be loaned out as trading capital to the more active and adventurous members of the community. Thus commenced a scheme of policy under one shape or another indefatigably advocated from that day since—a scheme devised and sustained by those active business men as they are called, who strive to make the capital of the rich and

the labor of the poor alike subservient to their plans of profit—a class numerically small, but whose superior activity and sagacity have given them always a decided and generally a controlling weight in public affairs.” This is an extreme view ; we do not believe the system to have been inaugurated with such intentions ; but that such was to a great extent its practical operation, there can be little doubt.

B. WOFFORD WAIT.